

Message Text

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42

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7857

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION USEC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E O 11652 NA

TAGS EFIN JA

SUBJ: TOKYO FOREX MARKET DEVELOPMENTS

SUMMARY: SPOT DOLLAR RATE CONTINUING TO STRENGTHEN DURING
MOST RECENT THREE TRADING DAYS, NECESSITATING HEAVY BOJ
INTERVENTION. FORWARD DOLLAR RATES ALSO STRENGTHENING
DRAMATICALLY WITH THREE-MONTH FORWARD MOVING TO
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SIGNIFICANT PREMIUM ON WED, OCT 31.

1. DOLLAR IN SPOT MARKET HAS STRENGTHENED EVEN FURTHER DURING MOST RECENT THREE TRADING DAYS, WITH REPRESENTATIVE RATE ON WED, OCT 31 AT Y266.83, UP Y0.18 FROM MON. IN ORDER TO MAINTAIN SPOT RATE IN Y266-267 RANGE, BOJ INTERVENTION HAS AMOUNTED TO NEARLY \$500 MIL IN THREE-DAY PERIOD. TOTAL VOLUME IN SPOT MARKET DURING THIS PERIOD WAS \$552 MIL. BOJ OFFICIAL INDICATES THAT HEAVY DOLLAR PURCHASES THUS FAR THIS WEEK TRIGGERED BY CONCERN THAT YEN IS OVER-VALUED AT EXCHANGE RATE OF Y265-266 PER DOLLAR. THIS CONCERN IS IN PART DUE TO THE LARGE JAPANESE OVERALL BALANCE OF PAYMENTS DEFICIT WHICH IS PROJECTED FOR THE CURRENT FISCAL YEAR.

2. FORWARD DOLLAR RATES ALSO RECORDED STRONG GAINS DURING FIRST THREE DAYS OF WEEK, WITH THREE-MONTH FORWARD (JAN DELIVERY) CLOSING AT Y272.00 ON OCT 31, UP Y5.42 FROM MON. SIX-MONTH FORWARD (APR DELIVERY) CLOSED ON OCT 31 AT Y269.70, UP Y3.28 FROM MONDAY'S CLOSE. TODAY'S CLOSE FOR THREE-MONTH FORWARD REPRESENTED PREMIUM OF 7.75 PERCENT WHILE THAT FOR SIX-MONTH FORWARD REPRESENTED PREMIUM OF 2.15 PERCENT. VOLUME IN THE FORWARD MARKETS HAS ALSO BEEN UNUSUALLY HEAVY, TOTALING \$495 MIL FOR THE THREE-DAY PERIOD. BOJ OFFICIAL STATED THAT AS RESULT OF CONCERN TRIGGERED EARLY THIS WEEK, TRADING FIRMS AND FOREX BANKS BECAME UNCERTAIN ABOUT THEIR LEVEL OF FORWARD DOLLAR HOLDINGS AND BEGAN BUYING IN THE THREE TO FIVE-MONTH FORWARD MATURITIES. AS RESULT OF SUCH HEAVY DEMAND, FORWARD MATURITIES MOVED QUICKLY TO PREMIUM WHICH THEN SPURRED A SIGNIFICANT VOLUME OF ARBITRAGE TRADING. SAME OFFICIAL ESTIMATES THAT NEARLY 80 PERCENT OF RECENT THREE-DAY TRADING WAS SPECULATIVE (I.E. PURCHASE OF SPOT DOLLARS IN ORDER TO SELL SAME DOLLARS FORWARD AT PREMIUM RATES). AS EXAMPLE, HE NOTED THAT TODAY (MONTH-END) BYING BY FOREX BANKS OF EXPORT BILLS FROM CUSTOMERS TOTALED APPROX \$100 MIL, ALTHOUGH TOTAL SPOT PURCHASES OF DOLLARS BY FOREX BANKS IN AREA OF \$200 MIL. THUS, APPROX 50 PERCENT OF TODAY'S TRADING TYPIFIED AS SPECULATIVE WITH NEARLY 100 PERCENT OF PREVIOUS TWO DAYS TRADING ALSO FELT TO BE SPECULATIVE IN NATURE. SAME OFFICIAL MENTIONED, HOWEVER, THAT DUE TO PRESENT TIGHT MONEY POLICY, SHORTAGE OF YEN MAY DAMPEN LIMITED OFFICIAL USE

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SUCH TRADING ACTIVITY IN NEXT SEVERAL DAYS. REGARDING MEDIUM-TERM OUTLOOK, HE WARNED THAT THERE IS NORMAL SEASONAL DECLINE OF EXPORTS IN NOV WITH SEASONAL INCREASE IN IMPORTS. THIS WOULD SEEM TO PORTEND FURTHER SHORTAGE OF DOLLARS IN MARKET DURING IMMEDIATE WEEKS AHEAD.
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